BUDGET 2027

insights

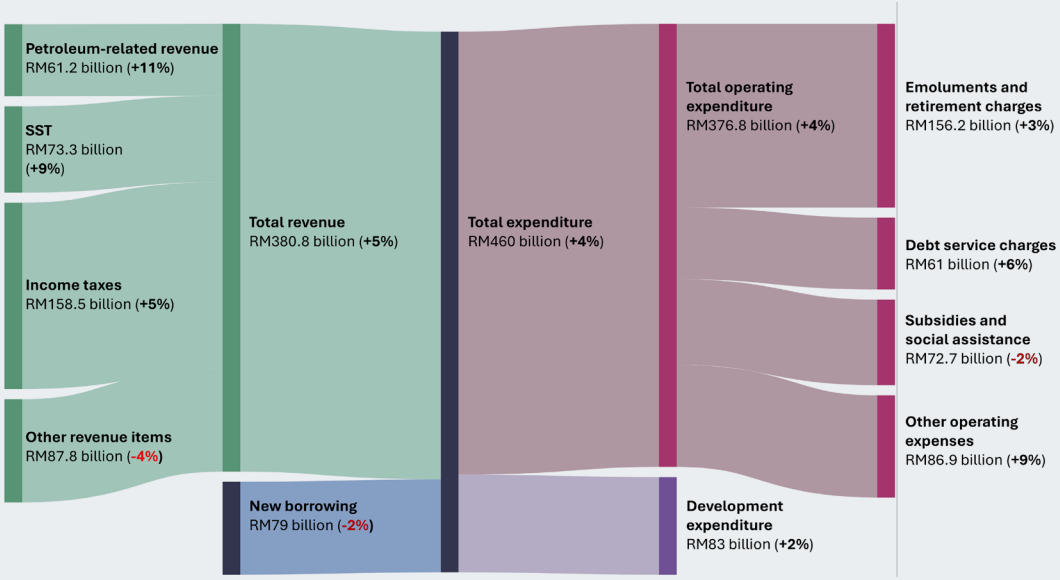


FISCAL POLICY

Oil price shock absorbed, but uncertain road for revenue and development spending

by Calvin Cheng, Fahad Ijlal Nizam and Hanson Chong

Fig. 1. Budget 2027 projects modest growth in both revenue and expenditure
Breakdown of revenue, expenditure and borrowing in Budget 2027 (year-on-year change)



Source: authors' calculations based on Ministry of Finance (MOF) data
Note: year-on-year changes are calculated based on revised estimates of 2027 fi¬gures. Other revenue items include excise duties, import/export duty, licenses and permits and investment income. Other operating expenses include grants and transfers to state governments, supplies and services, asset acquisition, refunds and write-offs, grants to statutory bodies and others

Oil sets 2026-27 direction

- **The 2026 oil shock was absorbed without significant overshoots.** Despite a RM25 billion increase in the total subsidy bill, the 2026 deficit slipped just 0.1pp to 3.6% of GDP. Thanks to higher revenue and stronger GDP growth, the overall 2027 consolidation pathway is mostly intact.
- **Yet, this cushion was mostly cyclical, and revenue base has not structurally broadened.** Oil earnings and payouts from state entities made up most of the 2026 revenue upgrade. Overall revenues are growing slower than the economy, leading to lower revenue-to-GDP shares (Fig. 2)
- **Fiscal exposure to oil prices has risen, creating ever-larger net negative fiscal strain.** Absent structural measures to strengthen revenue, future spending for development and strategic upgrading may continue to be constrained.

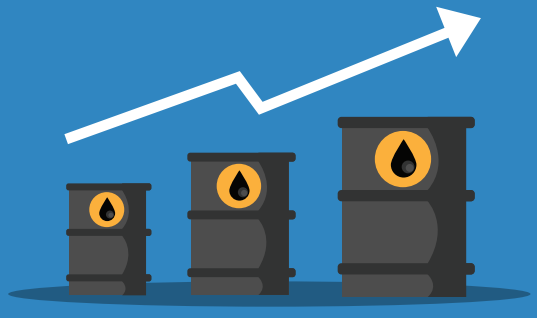


Fig. 2. Revenue-to-GDP continues steady decline past multi-decade lows, to nearly lowest levels since 1980s

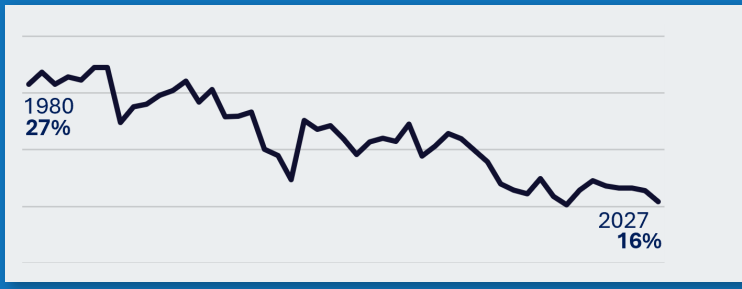
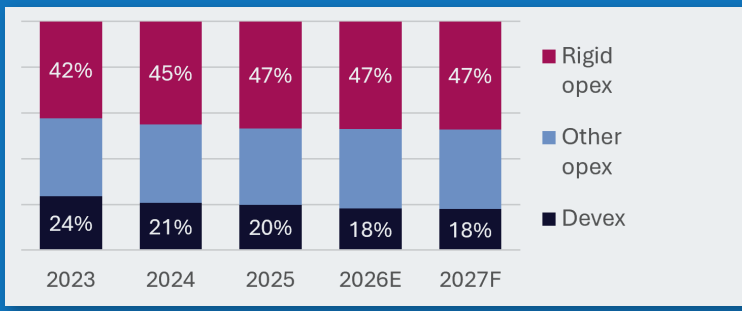


Fig. 3. Development expenditure (devex) share falls, as rigid operating expenditure (opex) rise further



Source: authors' estimates based on Ministry of Finance (MoF) data
Note: devex = development expenditure. Rigid opex = emoluments, retirementcharges and debt service charges components of operating expenditure

INDUSTRY AND INVESTMENT

Shift to 'Made by Malaysia' underway, but follow-through on existing industrial policy priorities needed

by Jaideep Singh and Qarrem Kassim

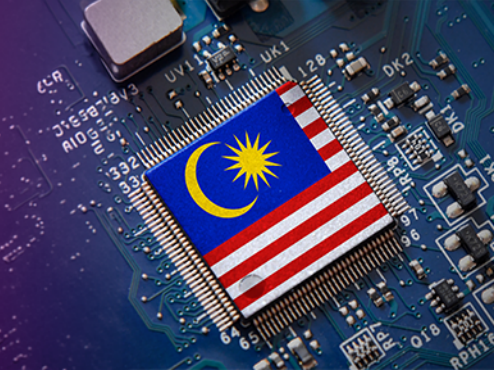
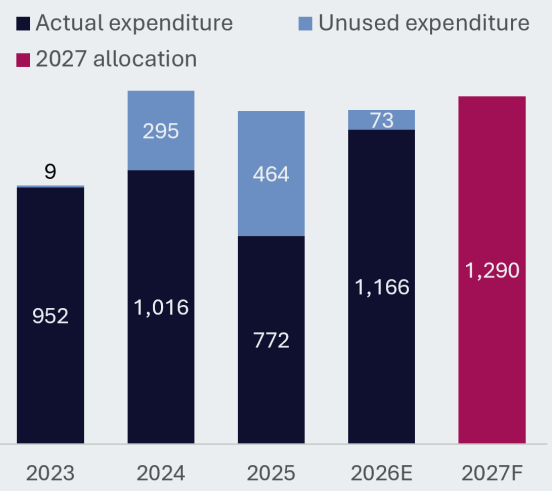


Fig. 4. In 2026, MITI disbursed nearly all its allocated devex, totalling RM1.2 billion

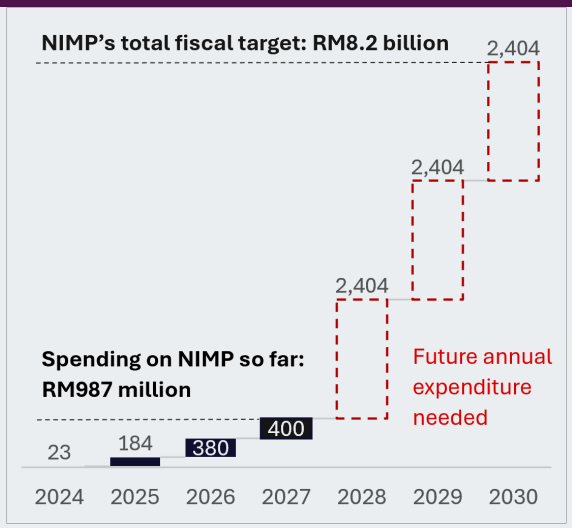
Allocation of devex for Ministry of Investment, Trade and Industry (RM millions), 2023-27



Source: authors' calculations based on MoF data
Note: actual expenditure for 2023-25 is extracted from 'Estimated Federal Expenditure' documents for 2025-27. Henceforth, figure for 2026 is a revised estimate (E) while figure for 2027 is a forecast (F) based on allocation in Budget 2027, unless otherwise stated.

Fig. 5. At NIMP's halfway point, just 12% of the RM8.2 billion fiscal commitment for 2024-30 has been disbursed

Cumulative government expenditure on New Industrial Master Plan 2030 (RM millions), 2024-30



Source: authors' calculations based on MoF data
Note: figures for 2028-30 show amount needed to fulfil total fiscal target of RM8.2 billion. 2026 = revised estimate, 2027 = forecast

Strong mobilisation of institutional capital for medium-term industrial development

- **Improved devex utilisation in 2026** for ongoing programmes, such as upgrades to industrial park infrastructure and loans for industrial automation, after underspending in 2024 and 2025 (Fig. 4).
- **Greater emphasis on mobilising GLIC capital for industrial development.** Budget 2027 renews commitments by six GLICs to co-invest RM25 billion annually in "high-growth, high-value" sectors – including semiconductors – under GEAR-uP. With new funds for R&D commercialisation and mid-tier companies, this could strengthen indigenous innovation. However, GEAR-uP must not create overdependence on GLICs or supplant NIMP 2030, given differences in sector coverage.
- **Clear signals of support for local firms in the digital economy.** Alongside digital funding and export market support for "Made by Malaysia" products, the prospective e-commerce bill could help create a more level playing field for local firms to compete regionally, particularly if timed to coincide with the upcoming ASEAN Digital Economy Framework Agreement.

Implementation of key policy priorities requires greater focus and clarity

- **Fiscal allocation for NIMP remains well below official targets** (Fig. 5). Strong direct fiscal support is still necessary to ensure NIMP fulfils its public policy objectives, including sector diversification, wage growth and economic security. As NIMP enters its final phase from 2027 to 2030, clarity is also needed on opaque implementation progress.
- **The budget lacks a fully integrated MSME development pathway as different financing instruments are largely piecemeal.** Without stronger coordination between skills financing, certification grants, technology and market access, support risks being fragmented and difficult to evaluate across the MSME lifecycle.
- **Unclear status of amendments to key MITI legislation.** While anti-dumping laws are now up-to-date, progress on the proposed Industrial Development Bill has stalled since 2025, slowing efforts to modernise licensing processes and map supply chains digitally for better targeting.

JOBS, SKILLS AND EDUCATION

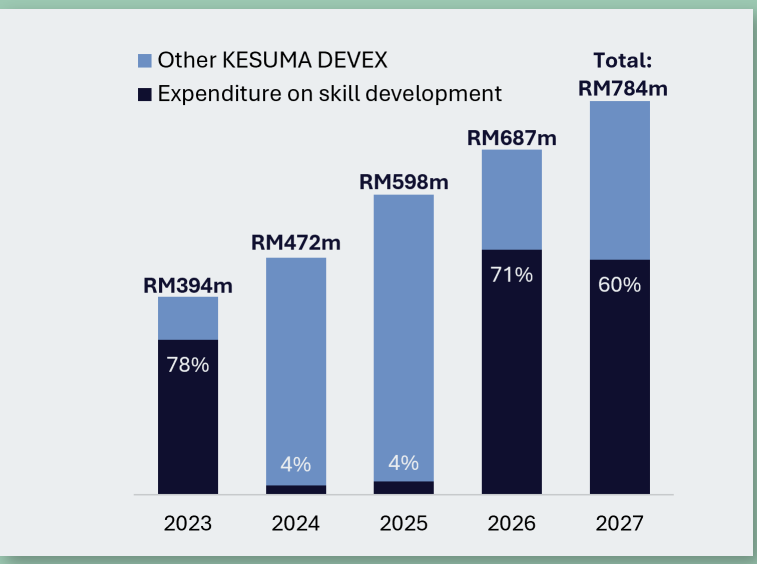
Sustaining strong investment in human capital development



by Hanson Chong and Fahad Ijlal Nizam

Fig. 6. KESUMA devex increases with slight reduction in allocation for skills development

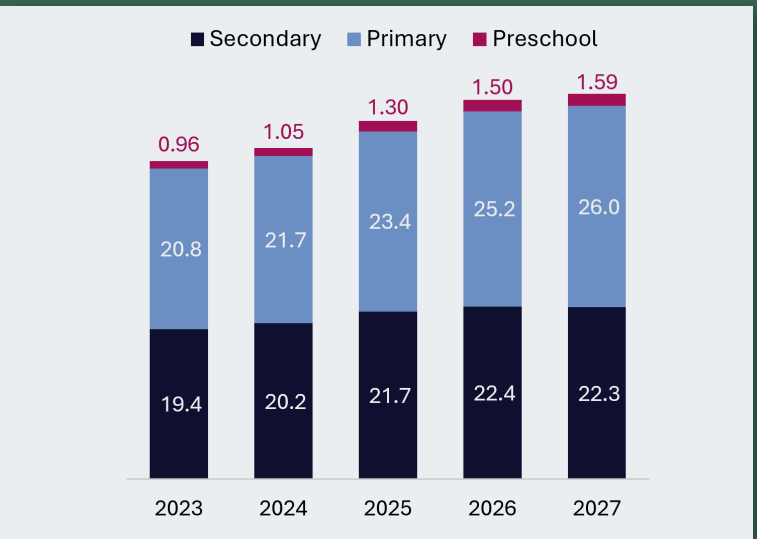
Budget allocation for skill development as a percentage of total devex for Ministry of Human Resources (RM millions), 2023-27



Source: authors' calculations based on MoF data
Note: actual expenditure amounts for 2023-25 are extracted from 'Estimated Federal Expenditure' documents for 2025-27. 2026 = revised estimate, 2027 = forecast

Fig. 7. Preschool funding continues to expand at a faster rate than primary and secondary education

Budget allocation for preschool, primary and secondary education (RM billions), 2023-27



Source: authors' calculations based on MoF data
Note: figures include allocations for both operating and development expenditure. 2026 = revised estimate, 2027 = forecast

Progress on targets for skills and wages, but alignment across workforce development policies remains necessary

- **Significant resources towards expanding care economy workforce.** Funding commitments include training for 6,000 childcare providers, 8,000 aged care workers and 3,000 disability caregivers, bringing Malaysia closer to the 13MP target of 50,000 caregivers by 2030.
- **TVET funding reaches another record high at RM8 billion, but delivery remains fragmented.** Only RM1.8 billion for TVET is channelled through MoHE's network of community colleges and polytechnics, with the remainder dispersed across entities such as MARA, MITRA and CIDB.
- **Proposed minimum wage changes raise concerns over coverage, enforcement and policy coherence.** Exemptions for MSMEs means up to 8 million workers may not be covered by the higher minimum wage of RM2,000, while creating incentives for firms to remain below the eligibility threshold. Questions also remain over whether the proposed RM2,500 wage floor for semi-skilled workers and graduates will be implemented through existing minimum wage legislation or alongside the Progressive Wage Policy.

Education spending continues to rise but structural reforms remain in progress

- **Education Ministry receives the largest allocation at RM69 billion with funding for preschool education rising most rapidly** (Fig. 7). An additional RM90 million is allocated for preschool education (+6% from Budget 2026), outpacing 3% increase for primary education and reflecting Malaysia's commitment to achieving universal preschool enrolment.
- **Early schooling aid rises from RM150 to RM200 to help families shoulder the cost of attending school.** However, it is unclear whether the expanded aid extends to preschool pupils, which currently has lower enrolment rates than primary and secondary pupils.
- **The expansion of teaching assistant recruitment reflects efforts to ease teachers' administrative burden and allow greater focus on teaching.** Yet, long-term improvements in teacher effectiveness require re-evaluating administrative processes and strengthening performance-based incentives.

SOCIAL PROTECTION AND CARE

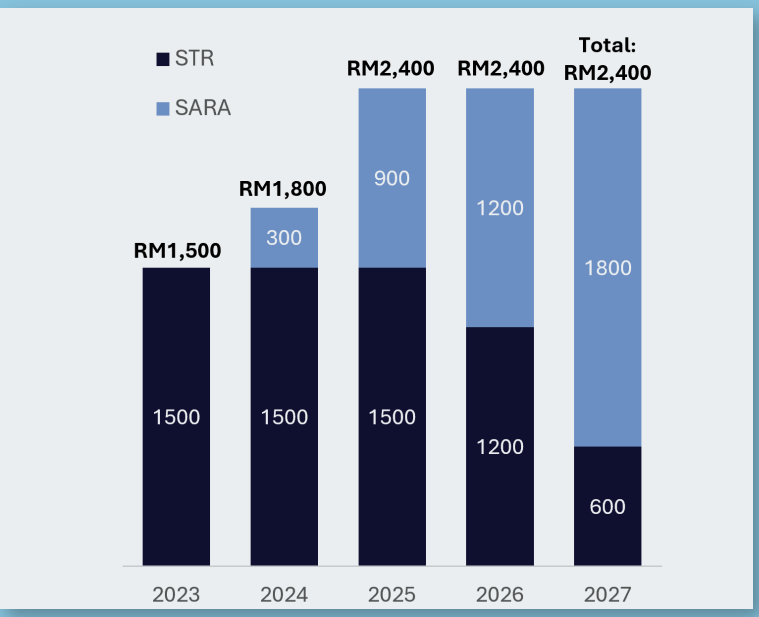
Incremental improvements to social protection coverage and elder care

by Tan Heang-Lee and Calvin Cheng



Fig. 8. Cash transfers steadily being phased out in favour of vouchers

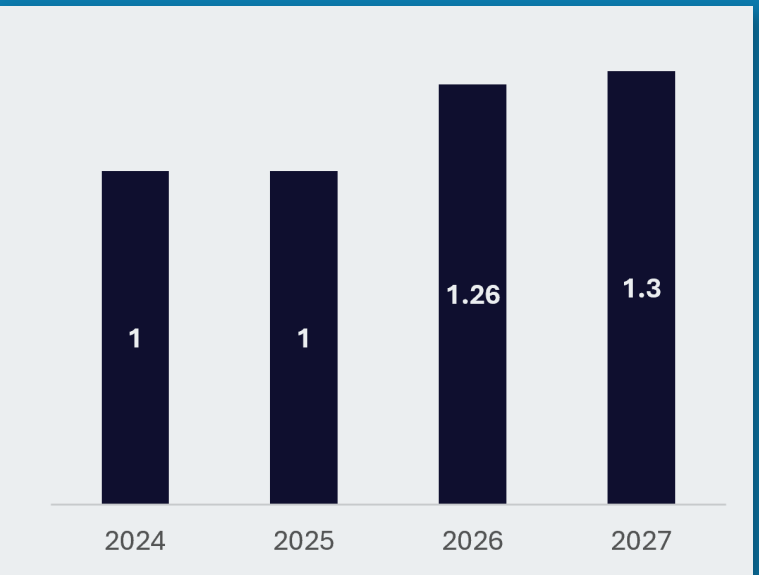
Annual STR and SARA benefits for typical household earning below RM2,500 with 2 children (RM)



Source: authors' calculations based on MoF and eCentral data
Note: 2027 figures are estimates. STR = Sumbangan Tunai Rahmah; SARA = Sumbangan Asas Rahmah

Fig. 9. Higher allocation for senior citizen assistance

Budget allocation for senior citizen assistance (RM billions), 2024-27



Source: authors' calculations based on MoF data
Note: 2026 = revised estimate, 2027 = forecast

Marginal improvements on coverage, no comprehensive reform and a step backwards on social assistance

- **Automatic EPF enrolment is a good start.** Along with continued EPF matching for gig workers and SOCSO co-funding, this would improve coverage. Next steps would be to turn higher membership into savings adequacy, including through mandatory contributions from digital labour platforms.
- **Implementation plan towards comprehensive, life-cycle social protection still absent.** Long-standing gaps in coverage, adequacy and fragmentation across schemes go unaddressed. Decisions for minimum social protection standards for gig workers under Act 872 deferred to 2027.
- **Cash transfers replaced by vouchers, while total benefit amount remains flat.** Small increase in total allocations for STR and SARA, but total benefit amounts have been flat since 2025. Further, its cash portion has been cut by ~60% (Fig. 8). This may raise concerns related to foregoing many of the advantages of cash transfers, including allowing low-income households the flexibility to use them to pay for rent, education and debt.

Budget 2027 offers pragmatic measures to address elder care affordability but burden of paying for care still falls on families

- **Increase in senior citizen assistance is welcome and could offer some relief** (Fig. 9). But it would likely only cover a fraction of recipients' living expenses and care costs.
- **Service tax on elder care reduced from 8% to 6%, with full exemption for services charging up to RM96,000 a year.** This could help lower care costs, but families still have to pay out of pocket. In the long-run, Malaysia needs to explore collective and comprehensive financing mechanisms, such as long-term care insurance.
- **Tax relief for parents and grandparents expanded to all care-related expenses beyond healthcare.** This is low-hanging fruit but only benefits those with taxable income.



ENERGY TRANSITION

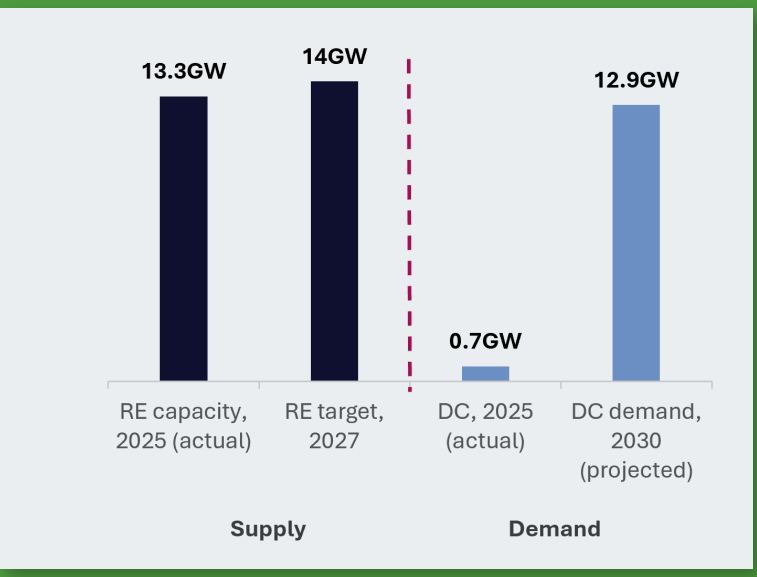
Policy progress but funding gaps persist for energy transition efforts

by Zayana Zaikariah and Farhana Shukor



Fig. 10. Data-centre demand could approach Malaysia's entire renewable capacity by 2030 while PETRA's target stands still

Installed generation capacity and data-centre electricity demand (GW)



Source: authors' calculations based on MoF data and Energy Commission
Note: RE=renewable energy, DC=data centres.

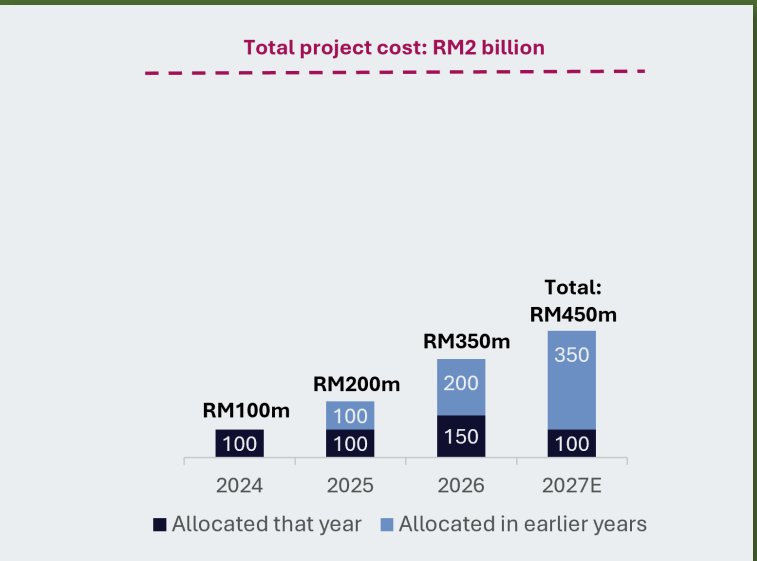
Despite progress in solar and storage, data centre demand puts pressure on renewable targets

Budget 2027 takes a step towards addressing solar intermittency by pairing renewable energy expansion with battery storage. The sixth Large Scale Solar programme (LSS6) offers 2,500MW of solar capacity alongside 1,250MW of energy storage. Integrating storage into procurement could reduce solar intermittency as Malaysia works towards its 35% renewable capacity target by 2030 and 70% by 2050.

Rising data centre demand risks enabling new gas demand. Data centre demand is projected to approach planned renewable capacity by 2030, yet PETRA has not revised its renewable targets (Fig. 10). While TNB will invest RM15 billion to strengthen the national grid amid rising demand, it is unclear if this will be met with fossil fuels, which could reverse progress towards the net-zero by 2050 target.

Fig. 11. Only RM450 million or 23% of RM2 billion NETR facility allocated since 2024

Cumulative government allocation to the National Energy Transition Facility (RM millions), 2024-27



Source: authors' calculations based on MoF data
Note: estimates derived from the Federal Expenditure Estimates 2027 report. Budget 2025 initially announced an allocation of RM305.9m for the year 2025, but the actual spending was RM100 million. 2026 = revised estimate, 2027 = forecast

Fiscal incentives continue but carbon pricing stalls and transition funding is cut

Budget 2027 extends energy efficiency incentives to households beyond large energy users. Funding for NUR MADANI triples to RM60 million with rebates of up to RM200 for efficient appliances. This supports NEEAP 2.0 target to increase energy savings by 2027.

The carbon tax promised for 2026 has yet to take place and is absent from Budget 2027. Its introduction now depends on a Climate Change Bill that is waiting to be tabled with no estimates. On the other hand, MoF's Economic Outlook narrows the plan to the iron and steel sector and leaves out the energy sector that earlier budgets included.

Budget 2027 slows energy transition funding with little clarity on its progress. The National Energy Transition Facility receives RM100 million this year, bringing total allocations to less than a quarter of its RM2 billion target (Fig. 11). While blended finance could bridge the gap, limited reporting obscures progress and the National Energy Knowledge Hub promised under NETR remains absent from the budget.

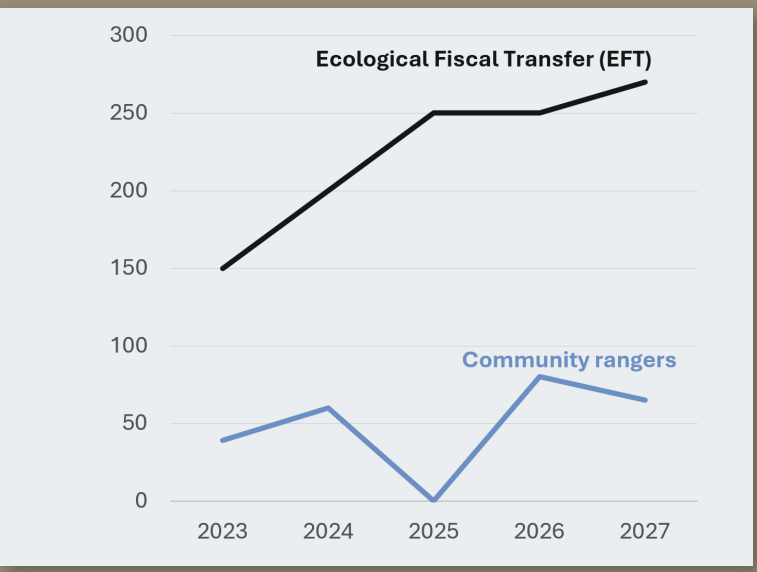
Balancing biodiversity incentives and structural climate adaptation

by Farhana Shukor and Zayana Zaikariah



Fig. 12. EFT funding increased by RM20 million while community rangers face RM15 million cuts

Budget allocation for ecological-relevant programmes (RM millions), 2023-27



Source: authors' estimates based on MoF data
Note: 2026 = revised estimate, 2027 = forecast

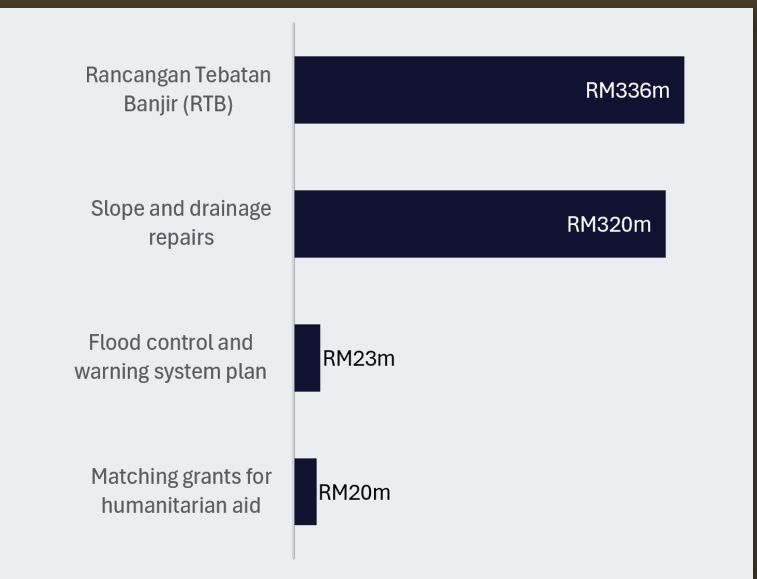
Allocations for habitat protection and enforcement support Malaysia's climate ambition to preserve carbon sinks and reservoirs under the National Policy on Climate Change 2.0

Reinforced sub-national conservation efforts. Raising the Ecological Fiscal Transfer (Fig. 12) allows the federal government to help compensate state-level opportunity costs tied to natural resource conservation, aligning with international biodiversity commitments.

While a minor reduction for community rangers does not necessarily indicate a retreat in ecological defence, it risks overstretching operational capacity. The budget focuses on the active deployment and maintenance of 2,500 personnel comprising Orang Asli, military veterans, and retired police. Given Malaysia's nearly 18 million hectares of forest cover and rich biodiversity, anti-poaching and forest protection efforts require more resource support to ensure effective coverage.

Fig. 13. Higher funding for structural climate resilience over disaster response

Budget allocation for climate resilience-relevant programmes (RM millions), 2027



Source: MoF data

Allocations attempt to address both short-term fixes and mid-term structural adaptation, which create policy gaps that reinforce isolated and reactive approaches

Ongoing funding on Rancangan Tebatan Banjir (RTB) to ensure progress on critical river basin projects nationwide (Fig. 13). As a multi-phased strategy, current RTB projects are built for long-term structural resilience in flood-prone basins.

Localised climate resilience through slope and drainage repairs. Attention in this area upkeeps existing structures to address vulnerable choke points, which are particularly exposed during monsoon season.

Reactive posture in localised maintenance. While the allocation for local authority (PBT) slopes and drains repairs is important, it remains largely reactive against rapid, unplanned urban development and intensifying climate events. To overcome this, PBT should consider transitioning toward long-term infrastructure planning while keeping pace with technical capacity.

TRANSPORTATION AND HOUSING

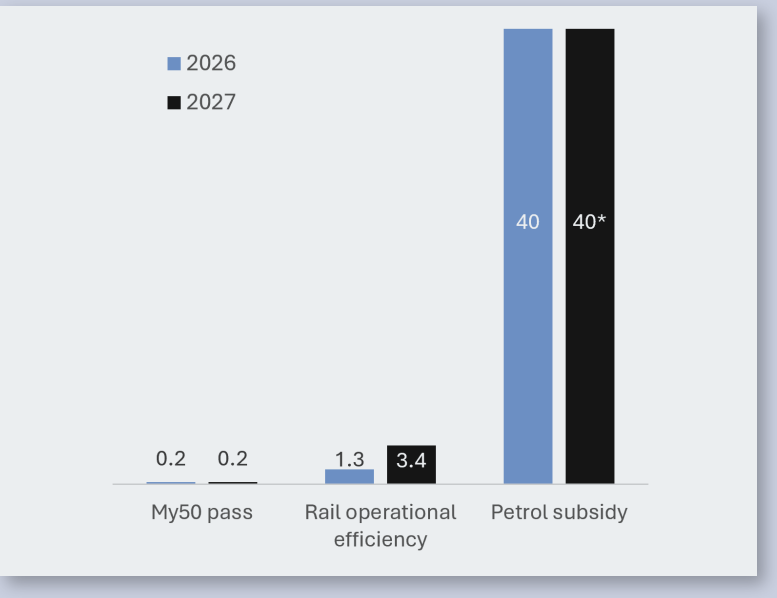
Urban development targets suffer from a mismatch in allocation



by Ahmad Farhan

Fig. 14. RON95 subsidy bill overshadows spending for public transit

Budgetary allocation for key transportation initiatives (RM billions), 2026-27



Source: authors' estimates based on MoF and auditor-general's data
Note: petrol subsidy figure excludes diesel and LPG subsidies. 2027 petrol subsidy bill is projected estimate based on current oil prices.

Long-term goal of 40% public transit modal share by 2030 at risk as fuel subsidy bill balloons, coupled with connectivity issues

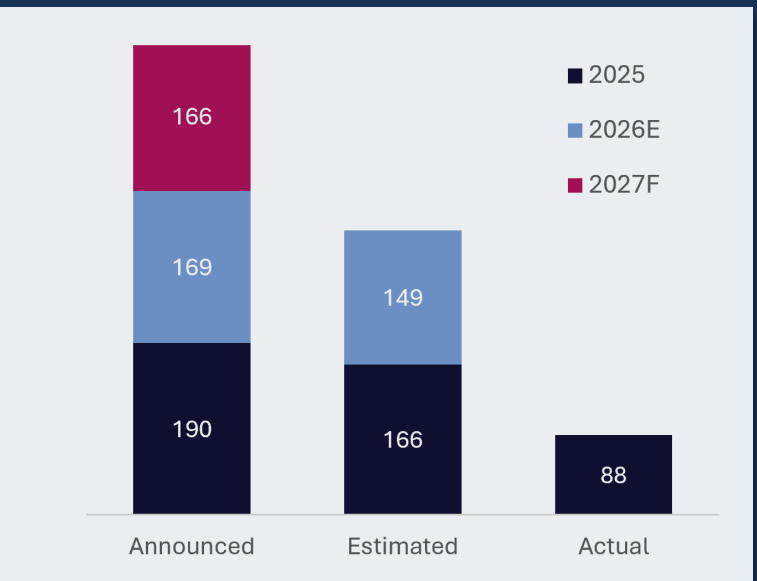
My50 pass expenditure increased by RM14 million to RM230 million (Fig. 14). This, alongside the new MyKomuter50 initiative, signals stronger commitment to incentivising public transport use in line with 13MP targets.

Transport spending must extend beyond rail to encompass other mobility types. While the allocation for 22km of covered walkways in Kuala Lumpur signals a nascent commitment to this aim, investment must extend beyond 2027 and past the boundaries of the capital.

Maintaining fuel subsidies at 300l/person may undermine public transit efforts. Next steps are to gradually reduce the quota, given that the average monthly use for those eligible is only around 100l, while also expanding allocation across mobility types to shift reliance towards public transit.

Fig. 15. Fiscal allocation for affordable housing maintenance sees contraction

Budget allocation for maintenance and repair of stratified housing projects (RM millions), 2025-27



Source: authors' calculations based on MoF data
Note: 'Housing repair' and 'housing maintenance' budget items combined. 2026 = revised estimate, 2027 = forecast.

Persistent underspending for public housing upkeep risks jeopardising resident safety

Actual spending to maintain and repair stratified housing developments sees substantial decrease from announced allocation (Fig. 15). Consistent trend of underspending for this budget item risks exposing up to three million Malaysians who reside in public housing projects to substantive impacts to quality-of-life. This issue if left unaddressed may also result in the compounding of structural defects, increasing long-term repair costs and risking serious building deterioration.

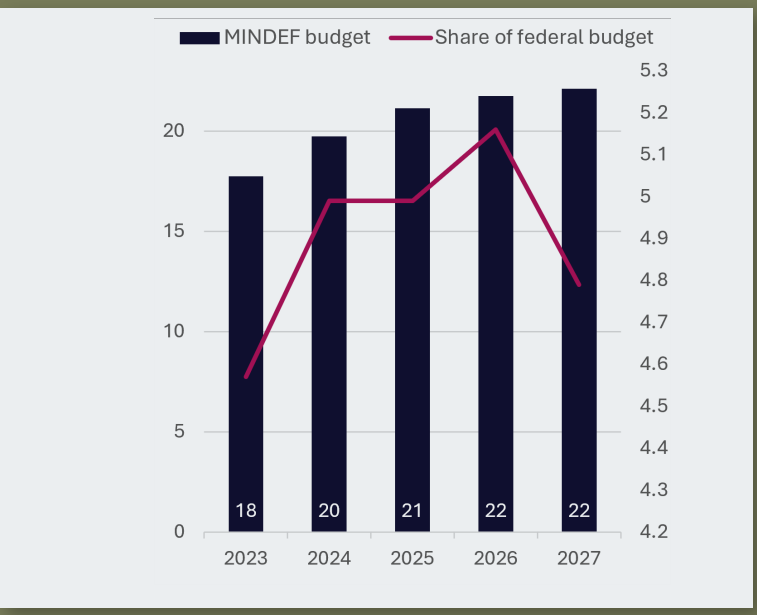
Focus needed on readiness and modernisation efforts



by Izzah Ibrahim

Fig. 16. Slight growth in MINDEF allocation while its share of federal budget drops to 4-year low of 4.8%

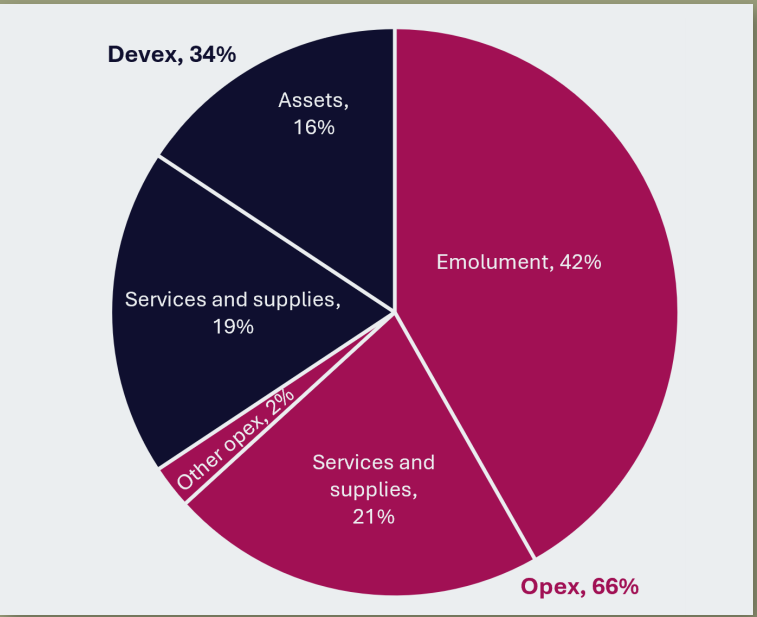
Budget of Ministry of Defence (left, RM billions) and share of federal budget (right, %), 2023-27



Source: authors' calculations based on MoF data
Note: 2026 = revised estimate, 2027 = forecast.

Fig. 17. Devex makes up a third of MINDEF's budget, which is essential for modernisation

Composition of MINDEF budget by type of expenditure (opex or devex), 2027



Source: authors' calculations based on MoF data
Note: other opex covers assets, grants and fixed charges.

Commitment towards defence is not compromised despite fiscal consolidation

- **While modest, there is growth in the defence budget.** Despite external geopolitical shocks, this signifies continued commitment towards improving the Malaysian Armed Forces' (MAF) overall readiness and capacity to safeguard national interests from external threats (Fig. 16).
- **Notable attention placed on improving wellbeing of military personnel and family and veterans' welfare.** Other key priority areas include defence and readiness capabilities, human capital development and patriotism, and research and defence industry ecosystem. This is line with the Budget's focus of supporting and providing for its people, including operational funding for the Department of Veteran's affairs.
- **Allocation to both defence and home affairs have largely remained equal.** The similar weightage, with this year being about RM22 billion for both ministries, acknowledges that security and public order cannot be maintained through military means alone. It shows the holistic approach that allows for the complementary interplay between internal stability, external security and economic prosperity.

Investment in modernisation efforts remain critical to address security threats

- **Devex is essential in broader modernisation efforts but only makes up 34% of the total budget** (Fig. 17). While the share of devex has risen relative to the early 2020s, prolonged underinvestment places pressures to meet ongoing and emerging security threats, including non-traditional security challenges, grey zone coercion, asymmetric and hybrid threats and high-tech warfare. This also raises questions about MAF's future capacity to develop greater territorial domain awareness, the new Cyber Force and secure, integrated systems for seamless communication and coordination to meet their needs.
- **Established but underfunded segments such as the defence industry will need sustained attention.** Despite the RM65 million allocated for R&D to support the defence industry, its history of inconsistent prioritisation and capability gaps will need to be addressed first.

BUDGET 2027

insights

INSTITUTE OF STRATEGIC & INTERNATIONAL STUDIES (ISIS) MALAYSIA

Address 1, Persiaran Sultan Salahuddin,
50480 Kuala Lumpur, Malaysia
Phone 603 2693 9366
E-mail info@isis.org.my

www.isis.org.my | ISIS_MY

ISISMalaysia | isis-malaysia

isis_malaysia